

VZCZCXRO3896
RR RUEHDA
DE RUEHDA #0016/01 1231059
ZNR UUUUU ZZH
R 021059Z MAY 08
FM AMCONSUL ADANA
TO RUEHC/SECSTATE WASHDC 4649
INFO RUEHAK/AMEMBASSY ANKARA 1192
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHRC/USDA FAS WASHDC
RUCPDOG/USDOC WASHINGTON DC
RUEHDA/AMCONSUL ADANA 1253

UNCLAS SECTION 01 OF 02 ADANA 000016

SIPDIS

SENSITIVE
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E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [EAGR](#) [EFIN](#) [TU](#)

SUBJECT: TURKEY: DESPITE BOOMING ENERGY AND COMMODITY PRICES,
CUKUROVA REGION SHARES GLOOMY ECONOMIC OUTLOOK

REF: A) ISTANBUL 187; B) ANKARA 834

Summary and Comment

1. (SBU) Business leaders in the Cukurova region of southern Turkey share the nation-wide pessimism about economic prospects for 2008. The textile industry's steady decline will likely accelerate when the GOT revises its regional incentive scheme, and plans for investments in other sectors such as tourism, medical services and energy are developing too slowly to provide any near-term relief. On the bright side, Cukurova's traditionally strong agricultural sector is expected to benefit from high commodity prices, though citrus exporters are trying to recover from a hard frost early in the year. If energy and commodity prices remain high in the mid- to long-term, the Adana region should logically hold a winning hand, but this promise has thus far not delivered the level of job creation needed for a city whose population is now 1.3 million and growing. End summary and comment.

The Gathering Gloom

2. (SBU) Businessmen in Adana and Kahramanmaras in recent weeks have provided a micro-level perspective on the pessimism Istanbul-based financial analysts expressed in ref a. Koral Cepni, a former textile executive who is now a university lecturer, told us that residential construction has sagged in recent months due to increasing interest rates and middle class economic insecurity. Unlike deep-pocketed Istanbul developers, he said that Adana contractors cannot afford to provide favorable financing to purchasers, who must then rely on bank loans. Adana lost a prestigious project in February when an American luxury condo investor pulled out of a \$75 million deal due to the mortgage crisis in the U.S. and corruption issues with one of the Turkish partners.

3. (SBU) Similarly, Cepni said that car sales have slumped since January and that retailers and the textile industry have been particularly hard-hit. Only one of dozens of textile companies remains profitable, he said, and the number of shuttered store-fronts (based on his admittedly unscientific survey) has more than doubled in the last nine months. He said poor market research results in a high level of small-business failure. Some aspiring businessmen, he said, "think they can start making kebab and toast and the customers will come. It's not that easy." Low-cost mega-stores such as Carrefour, meanwhile, are proving successful at luring shoppers away from traditional vendors in the city center.

4. (SBU) Adana's priority growth sectors - medical services, tourism and energy - are each experiencing problems. Cepni

noted Adana is well-positioned to serve as a "medical tourism" destination for the Middle East and some local clinics are trying to market to Syria as well as southeastern Turkey. Unfortunately, neighboring Gaziantep - which has closer links to both Syria and the southeast - is trying to develop the same sector. In addition, the GOT is changing the rules that permit physicians to work for both state hospitals and private clinics, making it more difficult for private health providers to recruit doctors. Similarly, the Adana tourism sector is competing with its western neighbor Mersin, which already has a head start in developing its (more attractive) oceanfront and in attracting foreigners, 2500 of whom have purchased vacation properties in the past 18 months. Finally, while there has been a continuous drip-feed of press releases about companies interested in making large-scale investments in oil refineries or ship-building in the Ceyhan region, no big projects have actually been started since the BTC pipeline was opened two years ago.

Textile Death Watch

15. (SBU) In Kahramanmaras, an agriculture and textile hub about 90 miles northeast of Adana, the local Chamber of Commerce president, Mehmet Balduk, worried that the crisis now developing could be worse than the 2001 crash because the current problems are not solely based in the financial sector. Thanks to a central government incentive program, the textile industry in Kahramanmaras now employs 25,000 people. He said that if the incentives are discontinued this year, as expected, he predicts factories using older, more labor-intensive machinery will close down or relocate, resulting in about 15,000 lost jobs. Buldak, who is in the textile industry himself, is following many of his competitors and studying the opportunities in Egypt's Qualified Industrial Zone, which has attracted a number of Turkish companies because of lower labor costs and tariff-free access to U.S. markets.

ADANA 00000016 002 OF 002

16. (SBU) Balduk also noted that, unlike in 2001, consumer indebtedness is now widespread and unsustainable. It is commonplace now for blue-collar workers to have debts ten times higher than their monthly salaries, so when people lose their jobs they also end up defaulting on their loans and going bankrupt. After a local textile company laid off 3,000 workers recently, there was a spike in court cases because so many of them were unable to pay their debts. He noted that people in the Kahramanmaras region still have strong links to their relatives in the villages so they will not suffer from hunger, but they will not be able to pay their debts.

Agriculture: Citrus Growers Angst, Grain Producers Fat and Happy

17. (SBU) Cukurova's agricultural sector presents a mixed picture. Ali Kavak, president of a local trade group, said that freezing conditions early in the year reduced the citrus yield by 21% which caused a comparable decrease in exports. Cepni told us that higher prices will partially compensate for the lower output, though some citrus farmers get into trouble by holding their crop too long in hopes of getting higher prices (futures markets are underdeveloped for many commodities in Turkey). The reduction in exports has hit ancillary industries especially hard: the head of an Adana-based joint venture with International Paper, Olmuksa, which specializes in cartons for citrus exporters, reported in February that his business was down 60%. Transport companies are also feeling the pinch - a transport/logistics official in Mersin told the media that citrus export volume is down about 60% and local truck companies have redeployed parts of their fleet to western Turkey.

18. (SBU) Grain producers in the Cukurova region, meanwhile, appear well positioned for 2008. Compared with the severe drought conditions in southeastern Turkey there has been sufficient rain in the Adana region and winter snows were

adequate to fill the irrigation reservoirs. Although high oil prices have increased operating expenses and the price of inputs, analysts expect local wheat, corn and soy farmers to benefit from the run-up in world grain prices. Cepni said that in markets where the GOT plays a strong role, such as wheat, he also expects high prices as the ruling party will want to win support in the run-up to local elections next March.

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